

COMMITTEES:

APPROPRIATIONS

COMMERCE, SCIENCE, AND
TRANSPORTATION

ENVIRONMENT AND
PUBLIC WORKS

United States Senate

WASHINGTON, DC 20510

December 12, 2012

The Honorable Arne Duncan
Secretary
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202-3100

Dear Secretary Duncan:

We applaud your efforts to strengthen and protect the integrity of federal financial aid programs that enable millions of students each year to pursue a postsecondary education. Having the most educated workforce in the world is a critical national priority, and your focus on safeguarding students and taxpayers is commendable. In this spirit, we are very concerned that the tactics employed by some colleges to evade default-rate laws and sanctions are harmful to students and taxpayers. We ask the Department to investigate default-rate manipulation tactics used by some institutions in order to protect students and taxpayers from their negative consequences.

With student loan debt now exceeding \$1 trillion and average student loan debt continuing to rise, an ever-growing number of students and families are saddled with unmanageable debt. An increasing share of borrowers – many of whom did not complete their studies – are unable to repay their loans, suffering significant financial consequences. More than nine percent of students default on their loans within two years of starting to repay them. This default rate is the highest in a decade and reflects not only the ability of recent graduates to find employment, but also the quality and affordability of individual higher education institutions.

The for-profit sector consistently has the highest default rates among colleges and universities. Almost one in four (22.7 percent) students at for-profits who began to repay their loans in 2009 defaulted within three years. That rate is more than double the rate for public institutions (11 percent) and more than triple the rate for private nonprofit institutions (7.5 percent). For-profit colleges enroll only 13 percent of students yet account for almost half (47 percent) of all defaulted borrowers.

But even these high default rates may not provide a complete picture. The recent “For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success” report released by the Senate Committee on Health, Education, Labor, and Pensions sets forth compelling evidence suggesting that the for-profit sector routinely uses tactics to manipulate default rates. One of these tactics entails encouraging or even harassing borrowers to delay payments on their loans in order to artificially drive down default rates. Delaying payments, through deferment or forbearance, is often not in the best interests of the students and may force students to pay thousands of dollars in additional interest over the life of the loan. For example, by its own account, Corinthian Colleges Inc. reduced its two-year default rate from 21.5 percent in 2008 to an expected 6.7 percent for 2009 through such tactics. Additionally, the

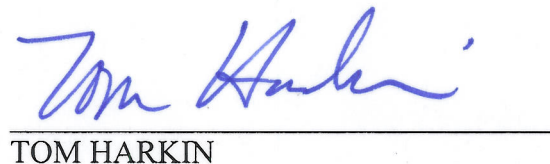
large discrepancy between the two-year and three-year cohort default rates of for-profit institutions raises serious questions about how widespread the use of such tactics may be across the sector. Specifically, while 152,862 for-profit college borrowers who began to repay their loans in 2009 had defaulted by the end of 2010, almost 229,315 had defaulted by the end of 2011, an increase of 50 percent. These "default management" tactics merit additional scrutiny and attention by the Department to ensure borrowers are not coerced into forbearance or deferment as a way to artificially reduce default rates.

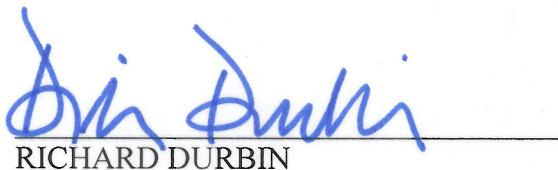
Similarly, there is evidence that for-profit colleges manipulate their Office of Postsecondary Education Identification (OPE-ID) numbers to avoid potential sanctions, including loss of federal financial aid eligibility. These tactics help colleges artificially avoid violating restrictions on high default rates or on the amount of the school's revenues that can come from Title IV of the Higher Education Act. While colleges are allowed to identify their campuses with one or multiple OPE-IDs, some colleges may be abusing the process to avoid sanctions. For example, the Senate report noted that one executive acknowledged that their company's consolidation of 29 of its OPE-IDs into just three would change the schools' default rates and Title IV revenue calculations. Additionally, according to the *Chronicle of Higher Education*, another company recently sought to consolidate into a single OPE-ID number 19 numbers, four of which were at risk of losing eligibility for federal aid. For-profit schools should not be able to use administrative smoke and mirrors to circumvent regulations that protect students and taxpayers and the Department should take action to prevent these tactics.

The Higher Education Act gives the Department clear authority to prevent schools from manipulating loan default rates, and we urge you to immediately investigate these reported practices and take swift action to stop their use and abuse. The Department should also examine how to better define and detect default manipulation and clarify what default aversion policies are appropriate and what policies essentially constitute a default manipulation. We look forward to working with you to empower students to successfully pursue their postsecondary goals and aspirations.

Sincerely,


FRANK R. LAUTENBERG

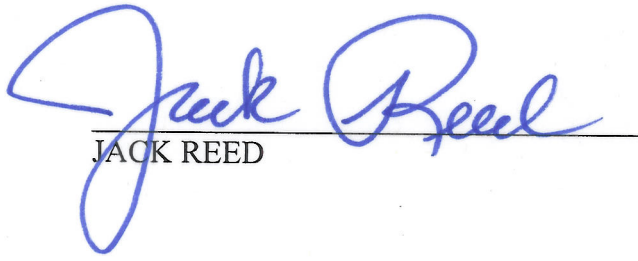

TOM HARKIN

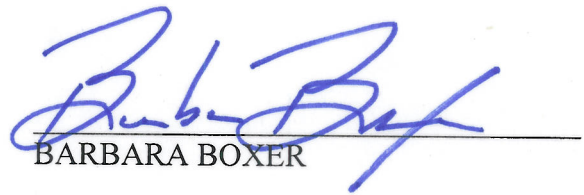

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